60 percent gross profit — fact or fiction?

It is a needed, strategic and intentional business approach. Are you ready?

I often hear: "Dollars pay the bills, not profit margins!" I agree, but you can't effectively manage your shop by dollars alone. Percentages, or Key Performance Indicators (KPIs), give you the ability to measure and manage your business, assess the integrity of pricing strategies and manage by each profit center. For example, using profit margin percentages, not dollars, to measure parts, labor and sublet profits allows you to compare results to your expected profit margin. If you're not meeting the expectation, you can dig into each profit center and diagnose where and how you lost gross profit dollars. Skilled service advisors, when building estimates, track profit on parts and labor per job by profit margin percentages. If you're just tracking dollars to manage your shop, how do you determine where and how you can improve? Let's listen to ATI's VP of Client Fulfillment, Bryan Stasch, share what he has learned from decades of experience with this question.

Using profit margin percentages to build your WIN # (Gross Profit Dollar need for your shop), then setting the daily production expectations in dollars for total sales, ARO and GPD for service advisors has proven to be a great recipe for successful shops. It's the combination of profit margin to create the plan and setting expectations in dollars that makes the magic happen.

WHAT HAS CHANGED FROM THE '80S? THE AUTO REPAIR LANDSCAPE HAS CHANGED, CREATING THE NEED FOR SKILLED SERVICE ADVISORS.

Choose a profit model

Profit models have been around as long as I can remember, but they weren't really explained to me as a profit model — more like parts pricing and technician pay. You know, your cost times two on parts and the technician gets 50 percent of the labor. That model would be 50 percent gross profit (GP) on parts, and an expected 50 percent GP on labor. Leaving 50 percent GPM for the shop to pay expenses and themselves. That was in 1984, and automotive repair shops were chasing 50 percent profit margin.

Here we are today looking for the supposed myth of 60 percent. Why? The auto repair landscape has changed, creating the need for skilled service advisors, who weren't needed back in the day because cars broke often, and plenty were to be found to create the sales shops needed. That's what has changed. Thus, ATI is creating a new profit model. Those additional 10 gross profit points are to cover the cost of the service counter and your advisors. You can do that or just accept the old school model and expect to make less money for a whole lot more work.

The topic of service advisors is now in question. "How many do you need in relation to the car count your shop needs in order to be profitable?" And that will vary from shop to shop and advisor to advisor; however, that money still needs to come from somewhere. You either build it into your profit model, like ATI's, or just eat the cost. Which makes the most sense?

60 percent gross profit on parts?

You better be very heavy on maintenance sales. The recommended matrix ATI uses is designed to hold a 53 percent GP by pricing strategy. That's only three percentage points over 1984. Three! Creating a pricing strategy for shop or job supplies, versus the shop eating those costs, adds roughly three to four points to the GP line. That would be 56 percent to 57 percent GP. And those final few gross profit points are found in your service/repair ratio. What percentage of your sales are maintenance sales versus repair sales? Repairs are expensive, and we would encourage a lower markup on these parts. However, maintenance sales are a much lesser cost with a larger markup. So, achieving the 60 percent gross profit on parts is a combination of managing three key components of your parts sales: pricing, waste and service/repair ratio.

60 percent gross profit on labor?

Tech wages. The market sets the demand. And if so, and if we recommend building your labor rate based on the cost of generating labor, won't the market also dictate what the market will bear on labor pricing? You can't have both arguments. High tech pay because of the market should allow the market to support the rate. Economics alone tell us this.

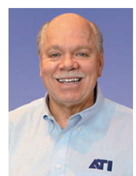
But you definitely need to focus on your customers' value proposition. Do you know what makes you different? You can't just start throwing numbers around and expect not to get challenged. You need to focus on how you justify it. What do you offer your customers that they can't get down the street? You can't use the fact that you fix cars better than anyone in your market. I get it, most reading this will get it, but to the consumer, that is a low-level expectation. So, try going big or go home on warranties — like five years or so. How many of your competitors are willing to try that?

Another perspective on this: Let's say you are $5 more on the labor rate than a competitor. And let's say you are hitting the benchmark for Average Repair Order of 2.5 hours of labor; that is only $12.50 more ($5 x 2.5) for the job. If you can't justify the $12.50, I am afraid there is something else fundamentally broken at your counter, not your labor rate.

So, for the informed shop owner, 60 percent profit is not a myth. It's a much-needed, strategic and intentional approach to managing your business. We have tons of shops over the years that decided that this approach sure beats walking in every day hoping for the best and trying to push more cars through. And, in my honest opinion, isn't the strategy of just pushing cars through the shop and a swinging pricing strategy based on how loud a customer complains about pricing the level of thinking that put most shop owners in the position they are in, working way too hard for such a small return on their investment? History has taught us that many automotive franchises and multi-store operations used to operate with the "just give me cars to make GP dollars" mentality — but many went bankrupt when car count slowed down. The economy might be humming along right now; however, you can't stop the business cycle of recession, slow growth and what that does to car count five years later in independent shops.

Try the ATI WIN number drill

"Dollars pay the bills, not profit margins!" Yes, but you must know your margins. If you would like an easy-to-use tool that will allow you to determine the dollars and the margins to get there, click on the link below. This tool will let you determine what changes you will need to make to get where you want to go. If you need help filling out the boxes, listen to our Teleseminar on Creating a Win Number. For both the Teleseminar and the Win Number Drill, you can, for a very limited time, simply go to *www.ationlinetraining.com/2019-02* and learn what tons of successful shop owners have used to keep their businesses safe for decades.



CHRIS "CHUBBY" FREDERICK is the CEO and founder of the Automotive Training Institute. ATI's 130 full-time associates train and coach more than 1,500 shop owners every week across North America to drive profits and dreams home to their families. Our full-time coaches have helped our members earn over 1 BILLION DOLLARS in a return on their coaching investment since ATI was founded. This month's article was written with the help of ATI VP of Client Fulfillment Bryan Stasch.
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